

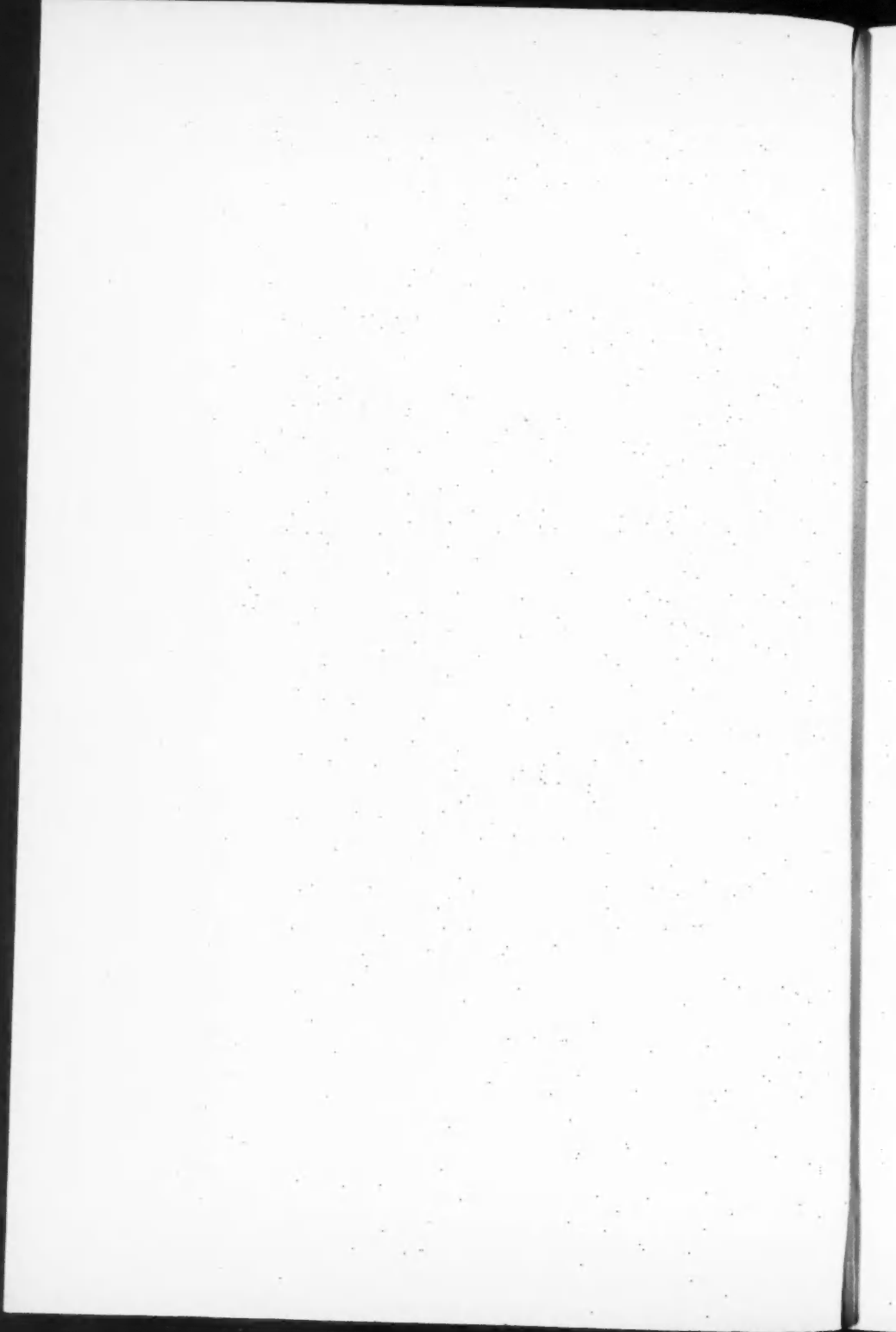
FOREIGN TRADE POLICY

by

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FOREIGN TRADE POLICY

WHETHER the United States shall continue to promote ready interchange of goods among the free world's trading nations, or whether it shall remold its foreign economic policy along protectionist lines, is one of the vital questions now confronting Congress and the country. The Reciprocal Trade Agreements Act, ten times renewed since it was put on the statute books in 1934, is scheduled to expire June 30, 1958. The Eisenhower Administration wants it extended for five years.

This year's debate will be marked by considerably more controversy than that attending past three-year or one-year renewals. House Speaker Sam Rayburn (D-Tex.) told reporters, after a Dec. 3 White House conference on legislative plans, that there would be "a whale of a fight." Senate Minority Floor Leader William F. Knowland (R-Calif.) likewise foresaw a stiff contest, Jan. 21, but he predicted that the law would be extended in some form.

The administration is asking additional tariff-bargaining power in the shape of authority to reduce existing levels of duty by as much as 25 per cent—5 per cent a year—over a five-year period, or within other stated limits in the case of certain types of tariffs.¹ Authority is being requested also to increase duties, in escape clause cases, to levels as much as 50 per cent higher than those prevailing under the Hawley-Smoot Act when the trade agreements program was initiated 24 years ago.

President Eisenhower said in his State of the Union address, Jan. 9, that a five-year extension of the Trade Agreements Act, with enlarged authority for negotiating trade agreements with other countries, was "in our national interest and in the interest of world peace."

¹ When the act was last renewed, in 1955, the President was authorized to cut tariffs by as much as 15 per cent, in annual stages of 5 per cent, below rates in effect Jan. 1, 1955. This was the first new tariff-cutting authority granted since 1946. See p. 89.

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World trade supports a significant segment of American industry and agriculture. . . . World trade helps to lay the groundwork for peace by making all free nations of the world stronger and more self-reliant. America is today the world's greatest trading nation. If we use this great asset wisely to meet the expanding demands of the world, we shall not only provide future opportunities for our own business, agriculture, and labor, but in the process strengthen our security posture and other prospects for a prosperous, harmonious world.

The reciprocal trade program has become a part of the general broad effort to promote international economic cooperation of various kinds as a means of enabling free nations to hold their own against attempted Communist economic and political inroads.

SOVIET TRADE DRIVE IN UNDERDEVELOPED LANDS

When Nikita S. Khrushchev told William Randolph Hearst, Jr., last November that "We declare war upon you . . . in the peaceful field of trade," he may have unconsciously reinforced the determination of the Washington government to make its foreign trade policy effective. The Soviet bloc's economic offensive in underdeveloped countries actually began in 1953. Comprising economic aid projects of various kinds as well as trade deals, the offensive already has had considerable success.

An official Soviet review toward the end of last year showed that Russian trade with countries of the Middle East and Southeast Asia combined had expanded more than four times over since 1950. Statistics from other sources indicate a threefold increase of Communist bloc trade with Egypt, and a fivefold increase in Red trade with India, since 1955. The International Cooperation Administration, which administers U.S. foreign aid programs, reported on Jan. 15 that the Soviet Union alone had signed 151 separate trade agreements with underdeveloped countries. Seemingly generous offers to enter into long-term agreements for trade exchanges were held out by Russian spokesmen at the non-governmental Asian-African Peoples Solidarity Conference at Cairo in December, and again by the Soviet delegate at a meeting in Bangkok on Jan. 22 of the United Nations Economic Commission for Asia and the Far East.

The State Department, reporting Jan. 3 on a study of the Communist economic offensive, said that the Red bloc in

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1956 accounted for more than 20 per cent of the total trade of Afghanistan, Burma, Egypt, and Iceland; for about 17 per cent of Turkey's trade; and for 12 per cent of Iran's trade. The Soviet Union's European satellites were responsible for approximately one-half of the Communist trade with the less developed countries, while the Soviet Union and Red China divided the remainder about equally.

One reason for the success of the Communist trade drive is that the Reds have been willing to take the raw materials or foodstuffs of underdeveloped countries for which there is no satisfactory market in the West and supply them in return with machinery, electrical equipment, and other capital goods. Countries like Burma with a rice surplus, Ceylon with rubber, tea, and coconut oil to export, and Ghana with cocoa, often cannot afford to turn down such offers. This is essentially barter trade but, as the State Department study pointed out, opportunities to participate in it have been welcomed "particularly in cases where primary producers were finding it increasingly difficult to dispose of commodities in normal cash markets."

Despite general recognition of the advantages of trading for cash in free world markets and some apprehension over the rigidities and other disadvantages of barter trade, the less developed countries are likely to be receptive to the [Communist] bloc offers in the absence of alternative cash markets or when bloc prices appear to be favorable.

The State Department noted at the same time that there was "increasing awareness in some countries that Soviet promises of increased trade can change with political winds, and that trade tied to political motivation rather than commercial considerations is inherently unstable and unpromising as a long-term proposition."

PLANS FOR CLOSER TRADE TIES IN FREE WORLD

Plans and proposals to establish closer trading relations among various groups of nations in the free world have been advanced during the period of the Communist economic offensive. Uneasiness over Red attempts at economic infiltration, as well as apprehension over Soviet scientific and military progress, may have played some part in the decision of NATO leaders, at the summit meeting in Paris in December, to press for further economic integration of the countries belonging to the North Atlantic Treaty Organization. President Eisenhower, addressing that meeting

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on Dec. 15, called for a concerted effort to strengthen underdeveloped areas within the North Atlantic community, such as Greece, Turkey, and parts of Italy. Among American contributions to that end, he mentioned extension of the Reciprocal Trade Agreements Act.

Other moves for greater regional trade cooperation appear to have developed without much relation to Soviet threats. The outstanding example is the plan for a European common market or customs union. Under a treaty signed at Rome last March, which went into effect Jan. 1, six countries of Western Europe—Belgium, France, Germany, Italy, Luxembourg, and the Netherlands—will start a year from now to reduce tariffs on trade with one another. If everything goes as planned, all commercial exchanges among the six countries will have been put on a free trade basis within a dozen years or so.²

Great Britain refused to join the supranational European Economic Community (common market), but it has taken the lead in current negotiations to establish a broader European free trade area. That area would include the six common market nations and perhaps as many as ten other countries in addition to Britain. The ultimate objective is free trade over all of Western Europe. The main difference between the two groups is that the nations of the European Economic Community would maintain a common tariff against imports from countries not belonging to either group, while the other countries in the free trade area would be at liberty to maintain independent tariffs on imports from outside.

Progress in promoting Western European free trade stimulated suggestions for similar action in other regions. The Scandinavian countries announced, Oct. 20, that they had blueprints ready for a Nordic customs union through which Denmark, Finland, Norway, and Sweden would put 80 per cent of their trade with one another on a duty-free basis. Plans for a Latin American common market are to be discussed at a meeting in March of the U.N. Economic Commission for Latin America. Study of a possible free trade area for the Baghdad Pact nations was urged, Jan. 21, at Ankara by the economic committee of the Middle East Treaty Organization. In addition, the possibility of forming a customs union of Arab countries was broached

² See "European Economic Union," *E.R.R.*, 1957 Vol. I, pp. 225-242.

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last November in Cairo, where the following month attendants at the left-tinged Asian-African Peoples Solidarity Conference heard vague proposals for a common market to cover Asian and African countries.

EFFECT ON U.S. EXPORTS OF FREE TRADE ABROAD

The United States strongly supported plans for European economic integration, after 1945, as calculated to promote the recovery of war-shattered countries and open the way to expansion of their industries. The common market project and other proposed free trade arrangements have been looked upon more recently as means of strengthening the economies of participating countries and so of making them sturdier and more dependable allies in defense of the free world. President Eisenhower in his budget message, Jan. 13, called for "gradual but steady reduction of unjustifiable trade barriers" and said that "We welcome the proposed European common market and free trade area as steps" toward that broad goal.

With the common market looming as an actuality in Europe, however, there is a growing tendency to let the agreed advantages for the community of free nations be overshadowed by apprehensions about the effects of the customs union on the export trade of outside nations. The apprehensions are not fanciful. Great Britain hardly would have taken the initiative to form a European free trade zone, embracing the common market area, if it had not been convinced that British export industries would otherwise have the greatest difficulty hanging on to continental markets to which German competitors will have free access.

The new competition may not be as extensive for American exporters. However, those shipping to Belgium, Luxembourg, and the Netherlands are disturbed by the prospect that the relatively low tariff rates of the existing Benelux customs union will be increased to some extent in the process of averaging national duties for the new single tariff of the common market countries. Nevertheless, backers of the common market hope that this disadvantage may be offset by corresponding reductions in relatively high French and Italian duties. No serious shrinkage of the shipments of food, fuel, and fats which make up two-thirds of American exports to Europe is anticipated. Exports of manufactured goods may suffer at first, but it is predicted in some quarters that the common market will raise living

standards and in the long run enlarge European markets for American products.³

If new European competition does hurt American exporters, the effects will be cushioned by the fact that duty reductions on the way to full free trade in the common market area will be stretched over a long period. Time for compensating adjustments, through general trade expansion or otherwise, thus will be given. Trade expansion is the chief purpose of the U.S. trade agreements program. To accomplish that purpose, American tariff bargainers have to have something to offer in return for concessions by foreign countries. It is because most of the existing bargaining authority has been used up that the President is now asking power to make further duty reductions within specified limits. The power is sought to enable the government to go ahead with the general tariff-negotiating program. There may be special need for it, moreover, to help keep American export markets in Western Europe open, for the six countries joining forces in the European Economic Community will be in a progressively stronger position to maintain barriers against overseas goods unless worth-while concessions are forthcoming.

United States Tariff and Trade Policies

THE CONSTITUTION gave Congress the power "to lay and collect . . . duties" and "to regulate commerce with foreign nations," but Congress has not itself exercised the power to carry out a full-scale tariff revision since 1930. The Hawley-Smoot Act, product of 15 months of lobbying and logrolling, seemed to demonstrate once and for all the impracticality of writing a tariff law by ordinary legislative processes in a country grown as large and diverse as the United States.⁴

When the Roosevelt administration took office, with large Democratic majorities in both House and Senate, it made no attempt to obtain reduction of the high protective rates

³ *Export Trader and Shipper*, Nov. 4, 1957, pp. 8-9.

⁴ The late Sen. Arthur H. Vandenberg (R-Mich.) described congressional tariff-making as such an "atrocious" that he would rather resign than sit through another session of it.

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of the 1930 tariff by methods employed in the past. At the urging of Secretary of State Cordell Hull, it chose another way. The 1934 law delegated tariff-making authority to the President, within prescribed limits, for a period of three years. The President was authorized to enter into trade agreements with foreign countries providing for reduction of American tariff duties by as much as 50 per cent, and for other trade concessions, in return for equivalent concessions by the other contracting parties. The agreements were not subject to approval by Congress.

The Trade Agreements Act was renewed periodically for a decade without major change.⁵ When the law was extended in 1945, Congress made a fresh grant of bargaining authority by designating tariff levels of Jan. 1, 1945, as the base for future 50 per cent reductions. Many rates had already been cut in half, so that an additional 50 per cent cut in those cases would bring the affected duties down to one-fourth of the old Hawley-Smoot rates.

TRANSITION TO MULTILATERAL TARIFF BARGAINING

The reciprocal trade agreements program remained virtually at a standstill during the war. When it again became possible to negotiate new agreements and renegotiate old ones, the grant of expanded bargaining authority facilitated a major change of procedure. Previous trade agreements had been concluded with individual countries on a bilateral basis, although concessions had been generalized to other countries occupying a "most-favored-nation" status. The new procedure put the whole business on a multilateral basis. Tariff experts from numerous nations met in a giant negotiating session, and the agreements hammered out there by national bargaining teams were incorporated in an over-all pact.

The initial and basic pact, product of a conference in Geneva which lasted from April to October 1947, was the General Agreement on Tariffs and Trade, signed originally by the representatives of 23 countries.⁶ Additional tariff concessions, negotiated in bargaining sessions at Torquay,

⁵ An escape clause, a procedural innovation which allows either party to rescind a trade agreement or specific concessions if unforeseen developments are found to injure domestic industry, was first introduced in a trade agreement concluded with Mexico in 1942 and was made a statutory requirement when the act was renewed in 1951.

⁶ GATT contracting parties now number 37. Czechoslovakia is the only member of the group from the Soviet bloc. Japan's membership is limited to the extent that 15 other GATT countries have been allowed to continue discriminatory provisions on imports of Japanese goods.

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England, in 1949, at Annecy, France, in 1951, and at Geneva in 1956 and 1957, have been put into annexes attached to the original agreement.

It has been estimated by the U.S. Tariff Commission that reductions in American tariffs, effected through GATT and the previous trade agreements, cut the ratio of duties collected in this country to the value of dutiable imports from 24 per cent in 1934 to about 12 per cent in 1953, where the figure has remained. The ratio of duties collected to total imports, dutiable and duty-free combined, now amounts to little more than 5 per cent. Other major trading nations have recorded similar reductions in ad valorem duty rates. Although there has not been a comparable lowering of duties by underdeveloped countries seeking to foster new industries, GATT trade practice rules probably have helped to limit quota and other import restrictions in such countries.⁷

RATIO OF DUTIES COLLECTED TO VALUE OF DUTIABLE IMPORTS
IN CERTAIN COUNTRIES, 1937-38 AND 1956

	1937-38	1956
West Germany	28%	8%
France	17	6
Italy	12	8
Sweden	9	5½
Benelux countries	6	4
United Kingdom*	4	2

* Excluding revenue tariffs on cigarettes and liquor.

SOURCE: U.S. Department of Commerce.

The original 1947 agreement pledged the signatories to observe certain principles of good conduct in trade relations and avoid restrictive practices except as authorized in particular situations. Administrative machinery also was established. Its role was to be taken over by a specialized agency of the United Nations—the International Trade Organization—whose charter was then under negotiation.⁸ However, that project, though promoted originally by the United States, met opposition in this country and was dropped in favor of the now pending proposal of an Organization for Trade Cooperation. Meanwhile, GATT has continued to operate its own administrative machinery in Geneva.

⁷ GATT's executive secretary has pointed out that GATT has established "unequivocally that protective quantitative import restrictions are not respectable."—Eric W. White, "Achievements of GATT and Prospects for the Future," *United Nations Review*, March 1957, pp. 34-37.

⁸ See "Foreign Economic Policy," *E.R.R.*, 1947 Vol. I, pp. 181-198.

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High tariff advocates in the United States contend that the whole GATT procedure is unconstitutional because Congress did not specifically delegate power to conclude multilateral, as opposed to bilateral, trade agreements. Congress itself has given encouragement to this view by including in each renewal of the Trade Agreements Act, starting in 1948, a proviso to the effect that adoption of the extension legislation "shall not be construed to determine or indicate the approval or disapproval [of GATT] by the Congress."

Despite President Eisenhower's repeated requests, Congress has not taken, nor shown any signs of taking, action to make the United States a member of the proposed Organization for Trade Cooperation. The agreement to set up a permanent administrative organization for GATT, on a less ambitious scale than that contemplated for the discarded I.T.O., was signed at Geneva in March 1955 by representatives of the GATT member nations, but the reluctance of Congress so far to authorize American participation has kept the organization from coming into existence.⁹ Although the House Ways and Means Committee voted in March 1956 to recommend American membership, many members of Congress have tended to regard O.T.C. as a supranational organization with which the United States should have nothing to do.

PERIL POINTS AND ACTION UNDER ESCAPE CLAUSES

The conflict between executive and legislative views on tariff policy was outlined last year by Howard S. Piquet, former chief economist of the Tariff Commission, as follows:

Since 1947, the administration has been avowedly trying to move consistently along the road of multilateral tariff reduction. At the same time, Congress has been equally, if not more, determined to make sure that no domestic producer suffers injury as a result of tariff concessions. Under the circumstances, it is difficult to say whether the Trade Agreements Act in its present [1957] form is more important as a means of lowering tariffs still further or, because of the escape clause and the defense-essentiality amendment, as a protective measure against import competition.¹⁰

The first significant statutory restriction on the trade program—the peril points provision—was written into the

⁹ The O.T.C. agreement will go into effect when ratified by countries accounting for 85 per cent of the combined trade of GATT members. Because the United States does 20 per cent of that trade, other nations have withheld action while awaiting American approval.

¹⁰ Howard S. Piquet, "Tariff Reductions and United States Imports," *Foreign Trade Policy Compendium* (House Ways and Means Committee, 1957), p. 237.

law in 1948 by the Republican 80th Congress.¹¹ It required the Tariff Commission to make advance studies of industries which would be affected by changes in duties scheduled for negotiation and specify levels below which the duties could not be cut without harm to domestic interests. If the President nevertheless agreed to rates below the peril points, he was obligated to state his reasons to Congress.

Inclusion of an escape clause in all trade agreements was made mandatory by executive order of President Truman in February 1947. The requirement was written into the statute itself in 1951, and the scope of the provision was considerably broadened in 1955. The Tariff Commission was then authorized to consider complaints from any segment, no matter how small, of a domestic industry and determine whether it was substantially threatened by increased imports. If the commission so found, it was required to recommend to the President the duty changes needed to remove the threat. It was then up to the President, taking into consideration the broad interests of the United States, to decide whether to order the changes. A so-called national security clause, authorizing the President to raise duties or establish quotas on imports found by the Office of Defense Mobilization to endanger industries vital to the security of the United States, also was incorporated in the law in 1955.

Applications for relief under the escape clause have numbered 83 to date. In 27 of the cases the Tariff Commission, or three of its six members, found injury to a domestic industry. In nine cases the President increased duties (fur-felt hats, hatters' fur, dried figs, clover seed, matches, bicycles, flax toweling, spring clothes-pins, and safety pins). But in 17 cases¹² he rejected the recommendations of the Tariff Commission, which by law can consider only the question of injury to a domestic industry. Factors which influenced the President to let existing duties stand included, in one case or another, the small number of workers employed in the affected industry, possibilities for diversification of production, existence of competitive factors in addition to imports and, above all, the effect of tariff increases on relations with other countries.

¹¹ The provision was repealed in 1949 but reinstated in 1951 and retained in subsequent extensions of the act.

¹² The President has not yet acted in the remaining case—a recommendation for a duty increase on stainless steel tableware.

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LEAD AND ZINC, TUNA FISH, AND CRUDE OIL CASES

Tariff Commission cases are now pending on two politically and internationally significant commodities: lead and zinc.¹³ The Inter-American Economic and Social Council on Dec. 19 adopted a resolution voicing concern over "the serious harm that U.S. tariff increases would cause" in countries exporting lead and zinc. Although the United States voted against the resolution, State Department officers warned that the proposed tariff boosts might have political as well as economic repercussions in Peru. Lead and zinc represented almost 15 per cent of export earnings and 4.5 per cent of the gross national product of Peru in 1956. Canada, another major supplier of lead and zinc, also was disturbed by the prospect of new U.S. import restrictions on those metals.¹⁴

Lead and zinc are mined in this country in 27 states. Tariff Commission hearings were held only after the State Department had opposed an attempt to apply import quotas by legislation. The late Rep. Jere Cooper (D-Tenn.), Ways and Means Committee chairman, told President Eisenhower, Aug. 16, that if he did not exercise his power to protect domestic industry, Congress would be "forced to study again the delegation of authority made to you under the trade agreements legislation." The President indicated in his reply that he would probably approve a duty increase even though he had refused to do so in 1954 "when other means were available."¹⁵

Tariff Commission hearings on tuna fish imports, in connection with an investigation undertaken at the request of the Senate Finance Committee, wound up on Dec. 13. Japan, which has an unfavorable trade balance with the United States amounting to more than \$300 million a year, has been alarmed over possible restriction of tuna imports by this country. The Japanese government, at Washington's request, has put informal quotas on textile shipments to the United States in an effort to forestall retaliatory congressional action. Japanese Ambassador Koichiri Asaki pointed out, Dec. 10, that if additional American markets were restricted, Japan might be obliged to ask help in financ-

¹³ Domestic industries seek an increase in zinc duties from \$.007 to \$.014 a pound, and an increase in lead duties from \$.0106 to \$.0255 a pound.

¹⁴ See "Relations With Canada," *E.R.R.*, 1957 Vol. I, pp. 387-393.

¹⁵ One of the other means was a stockpiling program. Purchases in the last six months of 1956 accumulated \$48.1 million worth of lead and zinc, although minimum stockpile requirements for those commodities had already been met.

ing its annual purchases of about \$400 million worth of American agricultural commodities. Small business in Japan has been pressing for more trade with Red China; Japanese trade deals with the Soviet Union also have been suggested to offset reduced sales in American markets.

Distress in the domestic copper industry has stirred demands for direct action by Congress to curb imports. A 2c a pound import tax on copper is on the books but is not collected as long as the domestic price of copper averages 24c a pound or higher. The price fell on Jan. 21 to 24c. In the meantime, bills had been introduced in both House and Senate to raise the import tax to 4c a pound and make it applicable whenever the domestic price is below 30c a pound.

Fourteen petitions for relief under the national security clause of the Trade Agreements Act have been submitted to the Office of Defense Mobilization. That agency has recommended imposition of restrictions only on imports of crude oil. A voluntary quota system was established in lieu of government action, but its administrator warned on Dec. 3 that mandatory restrictions might have to be imposed. The Independent Petroleum Association of America urged, Jan. 21, that such curbs be applied by amending the Trade Agreements Act to lay penalties on oil imports above levels specified by the President.

The Office of Defense Mobilization on Jan. 6 turned down a petition of the woolen industry to tighten up the quota system already in effect on imports of woolen and worsted goods.¹⁶ Woolen interests contended that a strong domestic industry was necessary to supply essential military needs.

¹⁶ Tariff quotas were established Sept. 28, 1956. However, the quotas placed no absolute limit on amounts to be imported; quantities in excess of stated amounts were simply made subject to higher duties.

Position of United States as World Trader

UNITED STATES foreign trade set new records in 1957. Total exports rose to an estimated \$21 billion and total imports to an estimated \$13 billion.¹⁷ Commercial exports of \$19.5 billion were 13 per cent larger than in the previous record year of 1956, while imports were 2 per cent larger than in that year. United States trade in 1957 accounted for 21 per cent of free world exports and for 13 per cent of free world imports.¹⁸

The disproportionate increase in American exports last year, brought about chiefly by petroleum shipments to Europe while the Suez Canal and some of the Middle East pipelines were blocked, gave the United States an \$8 billion trade surplus, the largest in ten years and almost twice as large as the average for 1950-1955. The immediate result was to intensify European nervousness over dollar reserves and to confront France with particularly serious dollar exchange problems. The Commerce Department now anticipates a decline in exports as foreign countries try to restore dollar and gold reserves through increased sales in the United States.

CONTROVERSY OVER GRAVITY OF WORLD DOLLAR GAP

Opinions differ as to the gravity of the so-called dollar gap and as to the possibilities of solving this persisting postwar problem. The Randall Commission on Foreign Economic Policy pointed out in January 1954 that the \$32 billion world dollar deficit run up in the years 1946-1953 was met only by U.S. government loans and direct aid totaling \$32.5 billion. To the majority of the commission, the annual "concealed world dollar gap" of \$2 billion to \$3 billion represented a continuing problem that would be aggravated by any reduction of American aid or by an economic recession in the United States.

The Commerce Department stated last year that from 1953 to the Suez crisis in 1956 total U.S. annual expenditures abroad exceeded foreign expenditures in the United States by about \$4½ billion. Despite liquidation of re-

¹⁷ Estimates based on actual statistics for first 11 months. Export total includes \$1.5 billion of military aid shipments.

¹⁸ In 1956 U.S. exports had amounted to 20 per cent of the free world total, and U.S. imports to 14 per cent of that total.

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serves during the Suez crisis, foreign countries with sound fiscal policies had been "able to accumulate sizable amounts of gold and dollars which strengthened both their official reserves and their private working capital."¹⁹ On the other hand, Lincoln Gordon, former U.S. minister for economic affairs in England, questioned whether foreign currencies, particularly French or British, would ever be able to "live with the dollar."²⁰

Exports represent only about 6 per cent of the gross national product of the United States, and they give employment to only 7 per cent of the labor force; in Britain, France, and West Germany the corresponding ratios are three or four times higher. *Imports* represent only 3 per cent of the U.S. gross national product, but this country depends on imports for numerous strategic raw materials²¹ as well as for foods like coffee, tea, bananas, and spices.

Paradoxically, falling world prices of industrial raw materials like lead, zinc, and copper present the most serious current threat to U.S. traders. The price slumps increase the danger of price stabilization agreements among producing countries, of more severe restrictions on imports into the United States, and of economic deals by foreign suppliers with the Soviet Union.²²

DISPOSAL OF SURPLUS U.S. FARM PRODUCTS ABROAD

Agricultural exports have not kept pace with non-agricultural exports, but they still represented 24 per cent of American exports in 1956 and 11 per cent of the country's total farm production.²³ About 41 per cent of the farm exports, however, were non-commercial shipments. The Agricultural Trade Development and Assistance Act of 1954, under which 32 per cent of U.S. agricultural exports were subsidized at a net loss to the government of over a billion dollars in fiscal 1957, authorizes sale of farm

¹⁹ U.S. Department of Commerce, "United States Balance of Payments in the Postwar Period," *Foreign Trade Policy Compendium* (Ways and Means Committee, 1957), p. 308.

²⁰ Lincoln Gordon, "Economic Aid and Trade Policy as Our Instrument of National Strategy," *Foreign Trade Policy Compendium* (Ways and Means Committee, 1957), pp. 179-182.

²¹ The United States imports more than four-fifths of its manganese, cobalt, chrome, asbestos, nickel, tin, and quartz requirements, and more than one-third of its copper, lead, and zinc requirements.

²² John R. Gibson, "Global Recession," *Wall Street Journal*, Jan. 9, 1958.

²³ W. T. M. Beale, Jr., Deputy Assistant Secretary of State for Economic Affairs, said on Nov. 13 that agricultural exports, amounting to \$4.7 billion in fiscal 1957, comprised "the output of 60 million acres, 13½ per cent of total cash farm income, 87 per cent of our wheat production, 59 per cent of our cotton, 83 per cent of our rice, 45 per cent of our tallow and grease, 25 per cent of our tobacco."

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products for foreign currencies not freely convertible into dollars, donations for famine relief, and barter deals.

American food shipments have been welcomed by underdeveloped countries, but the "fire-sale surplus disposal plans" have provoked severe criticism in countries which compete with the United States in commercial marketing of agricultural products. Jack Richardson of Australia, for example, pointed out at a GATT meeting last November that U.S. non-commercial transactions in wheat had increased steadily and substantially since 1954 and represented "something like 40 per cent of total world trade in wheat in 1956-57." Most of the delegates, recognizing that the United States had a long-term agricultural surplus problem, put chief stress on the need for consultation in advance of disposals. They voiced hope, however, that this country would eventually find a solution that would eliminate non-commercial marketing of farm products.

New Factors in Foreign Trade Policy Debate

ALTHOUGH basic arguments on the tariff question have changed little in the past quarter of a century, certain significant new factors have entered the picture. One is a shift of sentiment in the South away from traditional support of low tariffs and toward a protectionist stand. Migration of textile plants from New England to southern states has been changing the region's old agricultural economy, which depended heavily on cotton exports, and has contributed to development of an industrial economy whose manufacturing enterprises are fearful of foreign competition.²⁴ Rising imports of residual oil, competing with oil and gas produced in Oklahoma and Texas and with West Virginia coal, also have tended to promote protectionism among southerners.

At the same time, foreign competition, non-existent during the war and early postwar years, has been felt more and more by American manufacturers in general. British, German, and Japanese producers have been aggressively

²⁴ Alabama and South Carolina enacted legislation in the spring of 1956 requiring stores carrying textiles made in Japan to display signs stating "Japanese textiles sold here."

seeking to expand American markets for the output of their reconstructed factories. To the present generation of businessmen in low-profit industries like textiles, foreign competition frequently looks like the straw that will break the camel's back.

Successive tariff reductions, brought about through multi-lateral GATT negotiations, have squeezed out most of the excess protection in exorbitantly high duties formerly in effect. According to Howard S. Piquet, tariff cuts made after 1947 "began to be felt in the sense that they stimulated imports."²⁵ Items on which tariffs have not yet been reduced, including optical glass, pocket knives, wool gloves, and firecrackers, are for the most part products whose American manufacturers are highly susceptible to the competition of imports from lower-wage countries.

The current business recession has been putting more force behind protectionist demands. If unemployment continues to grow, members of Congress—even those from districts where imports offer no direct threat to domestic producers—will be subjected to increasing pressure to restore and strengthen barriers against competition from foreign countries.

CURRENT ARGUMENTS OF HIGH TARIFF ADVOCATES

What protectionists are working for in 1958 is to "return the regulation of our foreign commerce to Congress by amending the escape clause of the Trade Agreements Act to provide that the findings of the Tariff Commission be transmitted to Congress for approval or disapproval instead of being sent to the President."²⁶ Executive domination of foreign trade policy has resulted, according to Oscar R. Strackbein, chairman of the Nation-Wide Committee on Import-Export Policy, in wholesale sacrifice of domestic industries to alleged international objectives sought by the State Department.²⁷

American protectionists traditionally stress the unfairness of competition from countries where wage scales are lower than in the United States. Because American wages, the highest in the world, are subject to statutory minimum

²⁵ Howard S. Piquet, *op. cit.*, p. 231.

²⁶ Program adopted by Nation-Wide Committee on Import-Export Policy, Sept. 25, 1957.

²⁷ Oscar R. Strackbein, "Analysis of Executive Domination Over Tariff and Trade Administration," *Foreign Trade Policy Compendium* (House Ways and Means Committee, 1957), pp. 559-577.

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standards, and to collective bargaining procedures monitored by the government, and because immigration is limited by law, protectionists insist that the government is morally obligated to keep the gates closed to foreign goods produced under lower standards. The need to safeguard national security also is emphasized by high tariff supporters. They assert that Russian submarines could probably cut off overseas supplies in time of war.

PLANS TO AID INDUSTRIES INJURED BY TARIFF CUTS

Arguments for liberalization of trade and tariff policies go back to the economic theory of comparative advantage, which teaches that every country benefits by concentrating upon the goods it can produce most efficiently. Resulting lower prices would benefit all consumers. Advocates of a liberal trade policy agree that some relatively inefficient domestic producers may suffer, but they try to overcome protectionist objections by questioning the extent of injury and by proposing government aid to the injured.

Low foreign wages! it is pointed out, do not necessarily mean unfair competition, because of the superior productivity of United States workers. According to estimates by the Bureau of Labor Statistics, the proportion of wages to man-hour output is roughly comparable between countries, even though there may be wide variations between industries in particular countries.²⁸

An unofficial estimate of what might happen to imports during a complete suspension of tariff rates was made by Piquet in a 1953 book, *Aid, Trade, and the Tariff*. After analyzing four-fifths of U.S. dutiable imports, Piquet concluded that temporary suspension of all tariffs would cause total imports to go up by a maximum of 17 per cent. The Bureau of Labor Statistics estimated from these figures that not more than 200,000 American workers would thereby lose their current jobs.

Solution for such individuals and enterprises, it has been suggested, would be a direct program of federal aid during the period required for adjustment. David McDonald, president of the United Steelworkers, proposed such a program as a member of the Randall Commission, but the other 16 members thought it would be too difficult to deter-

²⁸ Department of Labor, "Employment, Wages, and Foreign Trade," *Foreign Trade Policy Compendium* (Ways and Means Committee, 1967), p. 780.

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mine injuries attributable to import duties alone.²⁹ However, bills were introduced in Congress last year by Rep. Herman P. Eberharter (D-Pa.) and Sen. John F. Kennedy (D-Mass.) to provide industries, individuals, and communities injured by imports with temporary federal assistance.

STRATEGIC ASPECTS OF U.S. FOREIGN ECONOMIC POLICY

From the liberal point of view, international considerations supply the strongest argument for lower tariffs today. David L. Cohn argued in December before the Ways and Means Subcommittee on Foreign Trade Policy that, since the United States could not possibly be self-sufficient economically and politically, it should use its economic resources to strengthen the whole free world.

Other critics of protectionism point to the case of Iceland, where loss of British fish markets led the country to make an agreement with Soviet Russia and jeopardized the continued existence of U.S. air bases there.³⁰ Uruguay carries on 10 to 12 per cent of its trade with the Soviet Union because of U.S. tariffs on its principal exports. Soviet traders are said to be successfully penetrating other Latin American countries.

Vice President Nixon said on Oct. 15 that the United States can no longer ignore the fact "that a dictator state . . . can in the short run achieve spectacular results by concentrating its full power in any given direction." For that reason, he declared, "The challenge we face in the economic field is one which it would be folly to underestimate." If the United States does not protect its raw material sources through generous foreign trade and investment policies, it may be "crushed without a single warlike act."

²⁹ See "Foreign Trade and the National Interest," *E.R.R.*, 1954 Vol. II, pp. 517-534.

³⁰ See "Future of Overseas Bases," *E.R.R.*, 1957 Vol. I, pp. 75-76.

